

WEDI



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REPUDIATED

"UNBANKABLE" BUSINESS OWNERS

REPORT BY:
RYAN AGUILAR
2020 HIGH ROAD FELLOW

WHO ARE THE REPUDIATED?

Merriam Webster Dictionary defines "repudiate" as "to refuse to accept" or "to refuse to have anything to do with" (1).

Starting and operating a small business is becoming increasingly difficult in today's world. Many individuals with aspirations of self-employment and entrepreneurship are being turned down by banks and other credit lending institutions. They are labelled as "high-risk" candidates, and without sufficient credit and monetary backing, it is nearly impossible for a business to get off the ground. These "unbankable" business owners, who banks refuse to hand out credit or loans to, will be referred to as the *repudiated*.



Common Attributes of Repudiated Individuals

- **Low credit scores**
- Experience **high interest rate loans**
- Have **few assets** to liquidate for business investment
- Tend to be **disproportionately minorities** (2)



(1) <https://www.merriam-webster.com/dictionary/repudiate>

(2) bizjournals.com/bizjournals/how-to/funding/2014/11/top-10-reasons-banks-wont-loan-to-your-business.html

DISPROPORTIONATELY MINORITY

Lack of Monetary Resources

Persons of color and immigrants are more likely to come from a disadvantaged background. Without capital and sufficient financials to back their projects, many banks turn down these individuals due to their **lack of collateral** (3). Collateral is an asset that a borrower provides to a lender to secure a loan, from physical workspaces to accounts receivables. Lacking collateral essentially means that an entrepreneur lacks a starting off point.

Insufficient Credit

Banks have increased their credit score standards since the Great Recession, from which many minorities that were already struggling have not financially recovered from. Minorities tend to disproportionately **struggle with building credit** (See Figure 1) and with getting in positions to build credit, such as through property ownership (See Figure 2).

Systemic, Policy-Based Reinforcement

Decades of **redlining, blockbusting, and white flight** have led to minorities feeling disproportionate effects in terms of quality of life. This includes being forced to pay excessive housing costs, being forced into low-paying jobs, and having to enter school systems with low educational attainment. The disproportionate costs felt by minorities lead to more financial struggle when trying to operate a business (See Figure 3).

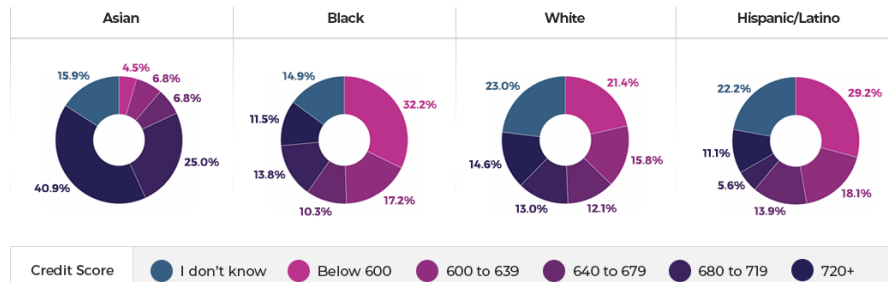


Figure 1 Black and Hispanic Americans on average reported disproportionately lower credit scores than White and Asian Americans (4)

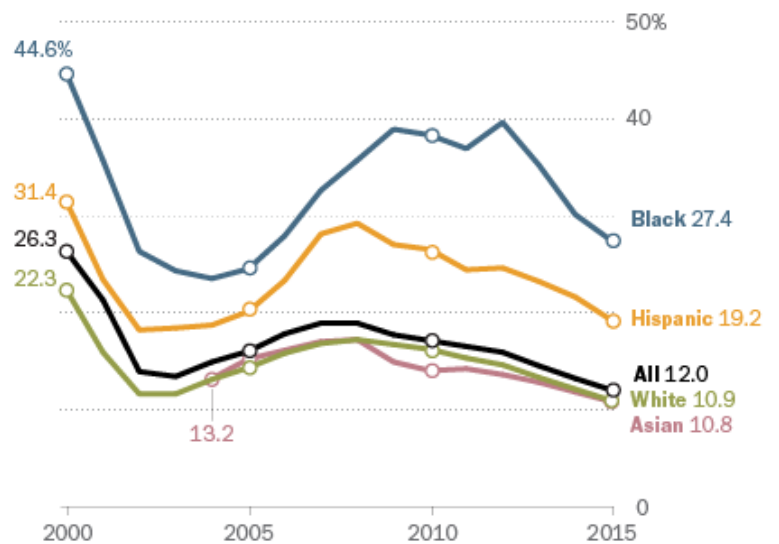


Figure 2: In the US, Blacks and Hispanics experience higher than average denial rates for mortgages, which can lead to disruptions in credit scores and a lack of collateral (5)



Source: 2014 Annual Survey of Entrepreneurs, calculations by FIELD at the Aspen Institute.

Figure 3: Black- and Hispanic-run businesses tend to financially struggle more than the average American business (6)

(3) <https://woodstockinst.org/wp-content/uploads/2017/07/Buffalo-and-New-Brunswick-Report-CC-License-Update.pdf>

(4) <https://www.creditknocks.com/authorized-user-credit-score-statistics/>

(5) <https://www.pewresearch.org/fact-tank/2017/01/10/blacks-and-hispanics-face-extra-challenges-in-getting-home-loans/>

(6) <https://www.aspeninstitute.org/blog-posts/racial-gap-business-ownership-explained-four-charts/>

BUFFALO, NY DATA

The following includes 2018 American Community Survey (ACS) data based on the 5-Digit Zip Code Tabulation Areas (ZCTA5) that best approximate neighborhoods within Buffalo, NY (7).

Percentage of Households with Incomes Below the Poverty Level	Poverty Status in Past 12 Months Below Poverty Level (Hispanic/Latino Alone)	Poverty Status in Past 12 Months Below Poverty Level (White Alone)	Poverty Status in Past 12 Months Below Poverty Level (Black/African-American Alone)
United States: 11.8%	Buffalo (City): 20.0%	Buffalo (City): 20.0%	Buffalo (City): 20.0%
Buffalo (City): 24.6%	West Side: 56.2%	West Side: 22.1%	West Side: 52.9%
West Side: 35.9%	East Side: 45.7%	East Side: 21.6%	East Side: 36.8%
East Side: 27.2%	Black Rock/Riverside: 49.2%	Black Rock/Riverside: 31.5%	Black Rock/Riverside: 59.6%
Black Rock/Riverside: 34.1%			

Metros with Largest Homeownership Race Gaps (2015)

Metro	Average Race Gap	White Ownership Rate	Black Ownership Rate	Hispanic Ownership Rate	Asian Ownership Rate	"Other" Ownership Rate
Buffalo, NY	40.5%	67.8%	22.0%	30.4%	34.5%	22.2%
Rochester, NY	37.1%	70.1%	21.2%	35.6%	48.0%	27.3%
Hartford, CT	35.1%	75.0%	37.6%	30.7%	48.9%	42.6%
Minneapolis, MN	33.9%	74.3%	19.6%	34.8%	53.5%	54.1%
Pittsburgh, PA	33.6%	69.6%	21.7%	36.0%	41.7%	44.8%
Milwaukee, WI	31.3%	65.0%	20.3%	38.3%	47.2%	29.0%
Cleveland, OH	30.7%	69.8%	24.4%	42.5%	52.4%	37.3%
New Orleans, LA	30.3%	59.5%	34.2%	36.8%	79.4%	66.1%
Memphis, TN	29.1%	70.5%	36.6%	45.5%	49.8%	34.0%
Boston, MA	27.2%	63.5%	31.0%	23.1%	52.9%	38.4%

White homeownership rate is **67.8%**, while the average minority homeownership rate is **27.3%** (8)

- Buffalo Gini Coefficient: 0.5061 (**Highest in Western New York**)
- Over 23% of city households have **severe housing burdens**, paying more than 50% of their income on housing; this percent increases to 30% for black households and 37% for Hispanic households
- 1/3 of households on the East and West Sides **lack a vehicle**
 - 21% of blacks, 15% of Hispanics, and 26% of Asians commute by transit, compared to merely 5% of whites.
- Individuals between 100 and 200% of the poverty line spend approximately 17.9% of income on childcare alone
 - In Erie County, the cost of childcare centers for **one infant is \$12,792 annually**

(7) Social Explorer Tables: ACS 2018 (5-Year Estimates) (SE), ACS 2018 (5-Year Estimates), Social Explorer; U.S. Census Bureau

(8) <https://www.apartmentlist.com/rentonomics/racial-divide-homeownership/>

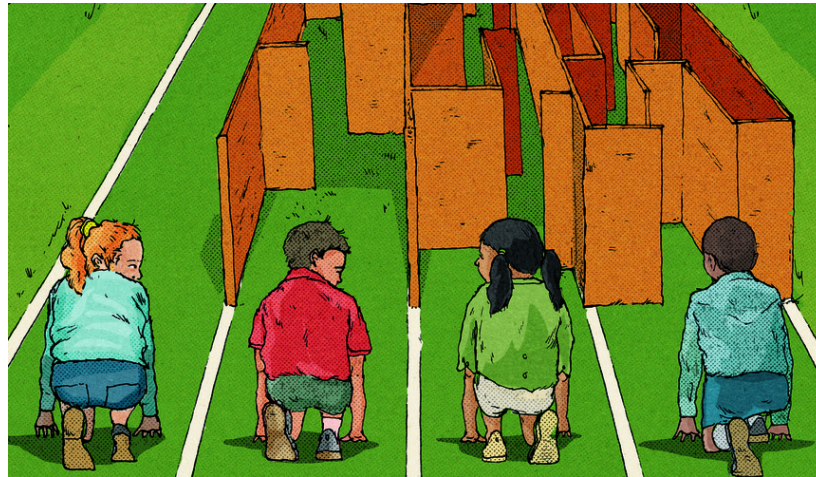
(9) https://ppgbuffalo.org/files/documents/poverty_low_wage_work_income_inequality/truth_commission_report_poverty_in_buffalo_causes_impacts_solutions.pdf

ANALYSIS OF BUFFALO DATA

Highly Racialized and Segregated Poverty

In Buffalo's West Side, East Side, and Black Rock/Riverside neighborhoods, minority poverty rates were consistently higher than their white counterparts in the same neighborhoods and compared to the city of Buffalo. This suggests that poverty is most **heavily concentrated** in specific neighborhoods, most notably in **Buffalo's West Side and East Side**. These areas inhabit large volumes of low-income immigrants/minorities that lack reliable access to transportation and have pay large fees/costs (such as large housing burdens and child care fees) that can drive one's credit score down further.

This inequality is further perpetuated by the alarming racial disparities in homeownership in Buffalo, which consequently leads to a disparity in what individuals are earning credit. Being placed at such a **severe disadvantage**, immigrants and minorities struggle to simply get out of the blocks when choosing to start a business. There must be more attention given to these low-income, largely minority areas and a reevaluation of the policy implications affecting its people. There needs to be **greater investment** in improving the financial literacy/understanding of Buffalo business owners so that they can work towards building credit and attaining sufficient collateral to foster entrepreneurship.



COVID-19 Impacts

The Coronavirus pandemic is **particularly devastating for small business owners** in Buffalo as the majority of local organizations are in the service, retail, or food industries, all of which rely on a sizable amount of in-person customer interaction. On top of this, **minorities have also been found to be disproportionately affected** by the Coronavirus (10). This serves as a double whammy for historically disadvantaged small business owners, many of which face bankruptcy as a real possibility. There needs to be greater financial assistance given to repudiated small business owners so that they can survive the pandemic.

Need for More CDFIs

Community Development Financial Institutions (CDFIs) are financial institutions which "promote financial inclusion" for disadvantaged business owners. Buffalo has only 3 certified CDFIs (11), meaning that **repudiated entrepreneurs do not have many alternative opportunities** to enter the economic mainstream. There needs to be increased funding and support for CDFIs from local community organizations and politicians as to build the business-capital resources of underserved communities.

(10) <https://www.cdc.gov/coronavirus/2019-ncov/need-extra-precautions/racial-ethnic-minorities.html>

(11) <https://nyscdfi.org/new-york-state-cdfis/>